VI. Regional Negotiations

Free Trade Area of the Americas (FTAA)

At the December 1994 Summit of the Americas in Miami, the leaders of the United States and the other 33 democratic governments in the Western Hemisphere committed to create the Free Trade Area of the Americas (FTAA) by no later than the year 2005. The Miami Summit "Plan of Action" for the FTAA led to four trade ministerial meetings at which ministers established twelve Working Groups and provided ongoing impetus to preparations for the negotiations. The United States participated actively in the Working Groups from 1995 through the first quarter of 1998, helping to construct the foundation for the negotiations and providing recommendations on the approach to the negotiations for the Ministers' decision at their annual meetings. At the fourth trade ministerial meeting held in San Jose, Costa Rica, the USTR and the other 33 trade ministers recommended to the leaders the immediate initiation of the negotiations.

When the leaders met again at the second Summit of the Americas in Santiago, Chile, in April 1998, they agreed to initiate these historic negotiations aimed at creating a free trade area throughout North America, Latin America, and the Caribbean – encompassing nearly 800 million people. They reiterated the mandate to attain concrete progress in the negotiations by the end of the century, including by implementing business facilitation measures by the end of 1999. They also approved general principles and objectives for the negotiations proposed by the ministers. Among the most important principles from the standpoint of the United States are: the FTAA should improve upon WTO rules and disciplines wherever possible and appropriate, and the outcome of the negotiations will be a "single undertaking", in the sense that signatories to the final FTAA agreement will have to accept all parts of it—they cannot pick and choose among the obligations. Among the most important objectives from the standpoint of the United States are: to progressively eliminate tariffs, nontariff barriers, as well as other measures with equivalent effects, which restrict trade; to bring under greater discipline trade-distorting practices for agricultural products, including those that have effects equivalent to agricultural export subsidies; to promote customs mechanisms and measures that ensure operations are conducted with transparency, efficiency, integrity, and accountability; to liberalize trade in services to achieve hemispheric free trade under conditions of certainty and transparency; to ensure adequate and effective protection of intellectual property rights, taking into account changes in technology; to establish a fair and transparent legal framework for investment and related capital flows; to make our trade liberalization and environmental policies mutually supportive; and to further secure the observance and promotion of worker rights, renewing FTAA countries' commitments to the observance of internationally recognized core labor standards.

The leaders approved the initial negotiating structure of the FTAA negotiations including the chairmanships' of the negotiating groups through the next Ministerial. The initial nine negotiating groups and chairs are: market access (including standards and technical barriers to trade, customs procedures and rules of origin) chaired by Colombia; investment chaired by Costa Rica; agriculture (including sanitary and phytosanitary measures) chaired by Argentina; subsidies, antidumping and countervailing duties chaired by Brazil; government procurement chaired by the United States; intellectual property rights chaired by Venezuela; services chaired by Nicaragua; competition policy chaired by Peru; and dispute settlement chaired by Chile. The vice ministers for trade were given responsibility as members of the Trade Negotiations Committee (TNC) to oversee the negotiations. The ministers will meet next in Toronto in November 1999 to assess the first year of negotiations and to provide direction for the next stage of the negotiations.

The leaders set the chairmanship responsibilities for the entire length of the negotiations, beginning with Canada as chair of both the Ministerial and the vice ministerial (Trade Negotiations Committee) meetings. The FTAA negotiations culminate in the last two years with the co-chairmanship of Brazil and the United States, providing the two largest economies in the hemisphere the responsibility to ensure a successful conclusion to the negotiations.

The leaders accepted the invitation of Miami to host the negotiating groups and administrative secretariat for the first three years of the negotiations. Since the negotiating groups began meeting in August 1998, the United States has participated actively in all nine groups, including by chairing the negotiating group on government procurement.

In recognition that the negotiations must take into account new technologies in international commerce, the leaders endorsed the creation of an experts committee on electronic commerce. This also is a unique committee in trade negotiations. The Committee, which currently is chaired by Barbados, brings together experts from both the private sector and the governments to provide guidance on the benefits electronic commerce can bring to the hemisphere and how electronic commerce should be dealt with in the construction of the FTAA.

The leaders agreed to conduct the FTAA negotiations in a manner that will build broad public understanding of and support for the FTAA. Recognizing the need for open communication with the public throughout the hemisphere, they endorsed the creation of a Committee of Government Representatives on the Participation of Civil Society. For the first time in the history of trade negotiations, a committee has been created whose purpose is to provide an effective means for civil society (e.g., business, labor, consumers, academics, environmentalists, etc.) to contribute to the negotiating process. The Civil Society Committee, which is currently chaired by Canada, as a first step has invited the public throughout the hemisphere to provide their views on the FTAA negotiations so that it could present the full range of views to Ministers before the November 1999 Trade Ministerial. To improve transparency and facilitate business in the hemisphere, the participating governments also have agreed to continue to make information available to the private sector by publishing inventories and other information on the negotiations and making them available on the official FTAA

Internet homepage (www.ftaa-alca.org).

The leaders also approved the creation of a consultative group on smaller economies, in which all 34 countries participating in the FTAA process will keep under review the concerns and interests of the smaller economies and bring to the attention of the vice ministers at the TNC recommendations to address any issues of concern.

North American Free Trade Agreement (NAFTA)

The North American Free Trade Agreement (NAFTA), which built on the U.S.-Canada Free Trade Agreement (CFTA) of 1989, is the most comprehensive and largest regional free trade agreement in the world, with nearly 400 million people producing over $8.5 trillion dollars worth of goods and services. Since the Agreement's entry into force on January 1, 1994, the Administration has worked to ensure that its provisions are implemented conscientiously in order to eliminate remaining barriers to U.S. exports. Cooperative agreements on labor and the environment are also part of the NAFTA. (Bilateral issues are discussed in the separate sections on Canada and Mexico).

Upon the Agreement's entry into force, half of all U.S. exports to Mexico became eligible for duty-free treatment. This benefits many sectors in which the U.S. is most competitive, such as semiconductors, computers, machine tools, aerospace equipment, and medical devices. Remaining tariffs are scheduled for elimination on a ten or fifteen-year staging period. January 1, 1999 marked the sixth year of reciprocal tariff reductions. The estimated average Mexican trade-weighted tariff on U.S. products has fallen from 10.0 to 1.68 percent, while the average U.S. tariff on Mexican products has fallen from 4.0 to 0.46 percent. Thus, U.S. firms have obtained more than an eight percentage point margin of preference compared to non-NAFTA competitors, while Mexican firms have obtained roughly a three percentage point margin of preference in the United States. Periodically over the last five years, Mexico has increased tariffs on many items from countries with which Mexico has no trade agreements, thus increasing even further the margin of preference for U.S. firms. For example, effective in 1999, Mexico increased import duties to three percent on capital and intermediate goods, and to ten percent on consumer goods, while exempting U.S. goods from the tariff increases, due to its NAFTA obligations.

Nearly all goods traded between Canada and the United States now enter each country free of any tariff, which means average tariff levels are zero.

Trade among the three NAFTA Parties has soared during the first five years of the Agreement. U.S. goods exports to our NAFTA partners rose over 60 percent, or about $94 billion (to $236 billion) by November 1998. U.S. merchandise exports to Canada, our largest trading partner, climbed 56 percent since the NAFTA entered into force. Despite the fleeting setback in export growth to Mexico in 1995 due to the peso crisis, U.S. merchandise exports to Mexico, our second largest export market, rose by a projected 92 percent from pre-NAFTA levels through the end of 1998. Mexico became our second largest trading partner, surpassing Japan, in September 1998. The level of U.S. trade to both Canada and Mexico continues to set new records.

Elements of NAFTA

Tariffs

Following procedures set out in the NAFTA, the U.S., Canada and Mexico conducted the second NAFTA tariff acceleration exercise in 1998. In this round of tariff acceleration, Mexico proclaimed the early elimination of tariffs on a range of U.S. products, affecting nearly $1 billion in trilateral trade. The trilateral agreement to eliminate tariffs demonstrated the broad support for increased trade among the NAFTA countries. The items for accelerated tariff elimination among the NAFTA partners were selected based on requests by consumers, producers and traders who are eager to take advantage of the benefits of free trade throughout North America. Under the agreement, the U.S. is eliminating tariffs on an equivalent set of Mexican products; Mexico and Canada are eliminating tariffs between their two countries on a parallel package of goods. Hundreds of items now enter each country free of tariff barriers, including chemicals, pharmaceuticals, fabrics, yarns, bedding, hats, stainless steel products, locomotive parts, watches and toys.

The NAFTA countries will consider additional tariff acceleration requests, and expect to announce procedures for doing so in 1999.

Removing Nontariff Barriers

The NAFTA went beyond tariffs and quotas by reducing or eliminating numerous nontariff barriers, such as import licensing and performance requirements. These were more prevalent in Mexico than in Canada. For example, the Agreement eliminated rules forcing U.S. manufacturing investors in Mexico to export their output -- usually to the United States -- rather than sell it in the Mexican market. Requirements that U.S. companies produce in Mexico in order to sell there are being phased out. These barriers have been especially hard on small U.S. businesses, which are often ill-equipped to wrestle with complex procedures and unable to invest in overseas manufacturing facilities.

Government Procurement

The NAFTA defines broad categories of government procurement contracts on which firms from the three Parties can bid, including many services, such as construction services. The Agreement provides for transparent tendering and bid protest procedures, establishes a bid challenge mechanism, and prohibits offsets, without restricting U.S. small and minority business programs.

Through the work of the NAFTA Working Group on Government Procurement, the NAFTA parties reached agreement on a procurement code system to be used for NAFTA annual statistical reports, and on the content and structure of statistical reports. The Working Group also provided a mechanism for the parties to exchange information on electronic tendering systems, national programs, guides and databases for small businesses, programs for matching small business suppliers with procuring agents, and criteria on small business set-asides.

Intellectual Property Rights (IPR)

The NAFTA contains specific obligations requiring high levels of protection to owners of patents, copyrights, trademarks, trade secrets, and integrated circuit designs. Such protection will increase trade while decreasing losses from piracy and counterfeiting. Products that benefit from the NAFTA's IPR chapter are, for example, computer software, motion pictures, audio recordings, pharmaceuticals, agricultural chemicals, and computer chips.

Investment

The NAFTA provides comprehensive disciplines to ensure foreign investors are treated like all other investors. The NAFTA includes disciplines on performance requirements which prohibit most requirements for local content, for the transfer of technology to competitors, and for exclusive suppliers of a particular product to a specific region or market.

The NAFTA Investment and Services Working Group (ISWG) maintains an active agenda. The NAFTA parties exchanged lists in the ISWG, for transparency purposes, of existing non-conforming measures at the subnational level, reviewed the status of obligations to phase-out certain measures under Annex I, drafted a report on professional services, reviewed negotiations among the professional services bodies of the NAFTA parties to conclude mutual recognition agreements on licensing and certification, and began an assessment of progress on land transportation services commitments set out in the Schedules to Annex I. (Annex 1212.2).

Rules of Origin

The NAFTA raised the North American content requirement for duty-free treatment of automobiles from 50 percent (as provided in the CFTA) to 62.5 percent, and introduced mechanisms to improve enforceability. The NAFTA also contains special rules of origin for high technology products, textiles, and apparel.

The NAFTA Rules of Origin Working Group has implemented substantive amendments to the Uniform Regulations, including introducing the concept of averaging to the *de minimis* and accumulation provisions, amendments liberalizing and simplifying Annex 401 rules of origin for various chemical and allied industry products, and technical rectifications to Table 308.1.1 of Annex 308.1 and Annexes 401 and 403.1 to correct errors and to keep the origin rules current with changes in domestic tariff schedules. The Working Group plans to finalize adjustments of certain product-specific rules of origin, including changing references to tariff items in the rules of origin from country specific to a generic format, exploring simplifying the rules of origin for goods where external tariff concerns are minimal, addressing automotive tracing requirements, and concluding discussions on amending the Uniform Regulations to clarify certain provisions on the accounting of fungible goods.

Agriculture

The NAFTA mandates the eventual elimination of all nontariff barriers to agricultural trade between the United States and Mexico. All quantitative restrictions on agricultural trade between the United States and Mexico were eliminated upon the NAFTA's entry into force. For import-sensitive industries, long transition periods and special safeguards will allow for an orderly adjustment to free trade with Mexico. All agricultural provisions will be implemented by the year 2008.

Under the provisions of the U.S.-Canada Free Trade Agreement, which was incorporated into the NAFTA, all tariffs affecting agricultural trade between the United States and Canada were removed on January 1, 1998. The exceptions are for U.S. imports of dairy products, sugar, certain sugar containing products, peanut butter, and Canadian imports of dairy products, poultry, eggs and margarine, which are covered by tariff-rate quotas.

The NAFTA Committees and Working Groups which oversee the implementation of the NAFTA's agricultural provisions include the Committee on Agricultural Trade, the Working Group on Grade and Quality Standards in Agriculture, the Working Group on Agricultural Subsidies, and the Advisory Committee on Private International Disputes on Agricultural Goods. These groups addressed issues such as tariff rate quotas, export subsidies and domestic support programs. The NAFTA parties exchanged data on fill rates of tariff rate quotas, and worked to ensure greater transparency in the administration of the quotas, with a focus on timing, length and frequency of permitted delivery periods for specific products. In the Working Group on Agricultural Subsidies, the parties agreed on a work plan to study domestic support measures that have minimal trade or production distorting effects, and produced a report on domestic support programs.

Food Safety

The NAFTA recognizes the right of its members to impose measures taken to protect food safety and animal and plant health. However, the NAFTA requires that each country adhere to guidelines to assure that such measures are fair and equitable, and not merely a way to protect domestic industries from foreign competition. Rules must be based on scientific principles and risk assessments, and must be applied only to the extent necessary to provide a country's chosen level of protection.

The NAFTA set up a trilateral Committee on Sanitary and Phytosanitary Measures for resolution of issues surrounding food safety and animal and plant health. The parties exchanged information and facilitated site visits by plant and animal health officials to address issues of pest free zones, proposed work to recognize broader disease-free areas in the US-Mexico border region and to apply the regionalization concept to pork, poultry and wheat, and established six Technical Working Groups. As a result of the Committee's work, there now is increased access for fresh pork from Sonora, Mexico, increased access for Haas avocados from Michoacan, Mexico in selected states, complete market access for U.S. sweet cherries exports to Mexico, and progress on market access for Arizona citrus and U.S. poultry processed in Mexico and re-shipped back to the United States. The Committee is also considering a range of bilateral issues, such as Mexican seed-potato imports from Canada, Florida inspection regulations, and is helping to implement President Clinton's food safety initiative, which was first announced in 1997.

Safeguards

The NAFTA provides methods for protecting American industries and workers from injury -- or the threat of injury -- from surges in imports through two safeguard provisions. A bilateral safeguard permits a temporary "snap-back" to applied MFN tariff rates, and a global safeguard maintains our right to impose measures on Canada and Mexico as part of a multilateral action when imports from either country seriously injure U.S. firms.

Services

The NAFTA strengthens rules and broadens coverage to all service providers, except those that are excluded specifically. The Agreement opens new market opportunities for U.S. service companies by allowing them to provide services directly from the United States on a non-discriminatory basis. It encourages elimination of citizenship requirements for licensing and certification of professionals.

In financial services, the NAFTA provides for significant, phased openings of the Mexican banking and insurance markets, as well as for party-to-party and investor-to-party dispute settlement mechanisms. The NAFTA Financial Services Committee has finalized rosters for financial services panelists for disputes under Chapter Fourteen, established "inquiry points" for each Party pursuant to the requirement of NAFTA Article 1411(6), agreed to update, on an annual basis, federal reservations set out in the Annex VII Schedules, consulted on Mexico's aggregate limit on limited scope financial institutions, and reviewed market access issues following the entry into force of US Interstate Banking and Branching Efficiency Act, arising from NAFTA Article 1403(3). The Committee also began planning for discussions of the possibility of further liberalization of the cross-border trade in financial services.

Standards

The NAFTA ensures that Canadian and Mexican product standards, regulations and conformity assessment procedures do not discriminate against U.S. exports or create needless barriers to trade. The Agreement preserves our right to establish and enforce our own product standards and regulations, particularly those designed to promote safety and protect human, animal and plant life and health and the environment. In 1998, the trilateral NAFTA Committee on Standards-Related Measures addressed issues such as product labeling regulations as well as Mexico's belated implementation of its obligation to recognize U.S. and Canadian certification bodies on a national treatment basis.

The Telecommunications Standards Subcommittee (TSSC), made up of telecommunications trade and regulatory officials from the three NAFTA signatory countries, regularly meets to discuss, monitor, and facilitate the implementation of the telecommunications-related provisions of the NAFTA. Work focused on implementing the TSSC's detailed, multi-year work program on standards harmonization, particularly with respect to standards for terminal attachment, and on procedures to accept data relating to telecommunication equipment from test centers and laboratories located in the territories of the other parties.

Although implementation of the NAFTA cross-border busing and trucking provisions has been delayed, the NAFTA Land Transportation Standards Subcommittee has made progress on safety issues. Talks continue on other land transportation issues, such as small package delivery.

Review of Dumping and Subsidy Determinations

Under NAFTA Chapter 19, the United States was not required to make any substantive change in its antidumping (AD) or countervailing duty (CVD) laws. The NAFTA does require Mexico to undertake far-reaching reforms to provide full due process guarantees and effective judicial review to U.S. exporters. NAFTA establishes a mechanism for independent binational panels to review final U.S., Canadian, and Mexican AD and CVD determinations when such review is requested by a person entitled to judicial review of the determination under the domestic law of the importing country. This is essentially the same review system that the United States and Canada have applied under the CFTA. In the five years that the NAFTA has been in force, 44 Chapter 19 panels have completed their work or have cases pending.

The NAFTA also incorporates the CFTA's "extraordinary challenge" procedure to deal with concerns that certain actions may have affected a panel's decision and threaten the integrity of the review process. In addition, the NAFTA creates a mechanism designed to address cases in which application of a country's domestic law undermines the panel process.

Mechanisms to Implement the Agreement

The NAFTA's central oversight body is the NAFTA Commission, chaired jointly by the U.S. Trade Representative, the Canadian Minister for International Trade, and the Mexican Secretary of Commerce and Industrial Development. The NAFTA Commission, modeled after the U.S.-Canada Trade Commission under the CFTA, is responsible for overseeing implementation and elaboration of the NAFTA and for dispute settlement. The Commission held its annual meeting on April 29, 1998. At that meeting, it directed officials to undertake a trilateral operational review of the work program of the trilateral Committees and Working Groups, and their sub committees and sub groups. As a result of the review, which concluded on September 22, 1998, at a Deputy Ministerial, new direction was provided to the more than 25 different committees, sub-committees and working groups. Furthermore, the work program is now subject to regular oversight by respective NAFTA Coordinators operating under guidance provided by twice yearly Deputy Ministerial meetings. The respective NAFTA Coordinators are directed to facilitate trilateral decision-making within the work program and prepare the agenda for Deputy Ministerial and Commission meetings.

NAFTA and Labor

The North American Agreement on Labor Cooperation (NAALC), a supplemental agreement to the NAFTA, promotes effective enforcement of domestic labor laws and fosters transparency in their administration. The NAALC also has generated an unprecedented trilateral work program in the areas of industrial relations (i.e., the right to organize and bargain collectively), occupational safety and health, employment and training and child labor and gender initiatives.

Each NAFTA Party has also established a National Administrative Office (NAO) within its Labor Ministry to provide a contact point for information, to examine labor concerns, and to coordinate the expansive cooperative work programs. Under the Labor Agreement, citizens of any NAFTA signatory can request their government to review labor practices in one of its NAFTA partners. In addition, the Agreement created a trinational NAFTA Labor Secretariat, located in Dallas, Texas. So far, twenty submissions have been filed under the NAALC. Several submissions have resulted in ministerial consultations and the adoption of work programs to address the underlying concerns.

Thirteen submissions have been filed with the U.S. NAO – eleven against Mexico and two against Canada. Six of these are still pending at various levels of review. The four pending cases concerning Mexico involve issues of freedom of association, occupational safety

and health, employment discrimination on the basis of gender, and child labor. Three of the four cases are currently at the ministerial consultation level. The fourth is being held in abeyance pending further information from the petitioners. The two cases concerning Canada involve freedom of association issues only. One has been accepted for review and is under consideration.
The second has been declined by the NAO.

Five submissions were filed with the Mexican NAO, involving various issues including freedom of association, occupational safety and health, employment discrimination, and migrant workers. Particular emphasis is on the treatment of migrant agricultural workers. All concern the United States, and four are currently pending.

Two submissions have been filed in Canada, one against the United States and one against Mexico. Both are pending. The case concerning the United States is pending a decision on acceptance for review.

Several submissions have resulted in ministerial consultations and the adoption of work programs to address the underlying concerns regarding application of labor law.

The Secretariat for the Commission of Labor Cooperation is engaged in several important on- going research projects. Among them a comprehensive, three-volume comparison of labor law in North America, a study of standard and advanced labor relations, work organization practices and us of technology in the garment industry, and a study focusing on the participation of women in the labor forces of the NAALC countries. The work of the Secretariat has greatly enhanced our understanding of each other's labor laws, and has resulted in better cooperation between the NAFTA countries.

The Parties have held over 40 trilateral conferences, seminars, and technical exchanges to share information and make improvements in many critical areas, including conferences to explore ways to eliminate the exploitation of child labor; to improve safety and health in the petrochemical, construction and electronics industries; to exchange technical industrial training; and to share information on equity in the workplace. By addressing issues of labor rights, the NAALC has contributed to the growth and development of labor unions within Mexico and Canada as democratic institutions that will help ensure the participation of workers and their prosperity.

NAFTA and the Environment

A further supplemental accord, the North American Agreement on Environmental Cooperation (NAAEC), ensures that trade liberalization and efforts to protect the environment are mutually supportive. The NAAEC created the North American Commission on Environmental Cooperation (CEC) comprising the designated environmental officials from the United States, Canada, and Mexico. The Commission's work is supported by an Environmental Secretariat located in Montreal.

In the first three years of operation, the CEC has begun work on an impressive list of environmental projects focusing on five major themes: environmental conservation; protecting human health; cooperation and law enforcement ; environment, trade, and economy; and information and public outreach. Other recent developments include the establishment of the North American Fund for Environmental Cooperation (NAFEC), a $1.4 million fund for community-based grants to help meet the goals of the NAAEC. Since its inception, the NAFEC has funded over 90 community-based projects in Canada, Mexico, and the United States.

The Border Environment Cooperation Commission (BECC), an institution created by the NAFTA and focused on the improvement of the U.S.-Mexico border environment, has certified a total of 24 environmental infrastructure projects (13 on the U.S. side and 11 on the Mexican side) worth more than $600 million and benefitting over seven million people. Since its establishment, the North American Development Bank (NAD Bank) has approved a total of $105 million in loans, guaranties, and grants to help finance 14 environmental projects, representing a total investment of $408 million and benefitting over four million residents on both sides of the border. The NADBank also created a Mexican domestic subsidiary, 'SOFOL', to allow direct lending to Mexican public entities. This development is expected to increase the amount of lending on the Mexican side of the border. In April of 1997, the NADBank and the EPA established the Border Environment Infrastructure Fund (BEIF), under which the Bank administers $170 million in EPA grants in conjunction with its lending. With the BEIF, the NADBank puts together affordable financing packages for poor border communities. The NADBank also has established an institutional development program (IDP) to improve the management capacity of local utilities in the border region. By the end of 1998, the IDP had 71 projects at various stages of development for a total cost of almost $4 million.

The second phase of a border environmental plan, Border XXI, was negotiated with Mexico. It emphasizes public involvement, capacity building and decentralized environmental management. The program is aimed at improving coordination between Mexico and the United States in protection the environment while fostering sustainable development on the border. Regional subgroups have been established along the border to facilitate local and state involvement on specific projects. Some of the significant accomplishments of Border XXI include: aerial photography of the border to create seamless maps and binational geospatial data for use in environmental decision-making; joint contingency plans for chemical emergency response; adoption of pollution prevention practices, and technologies.

Dispute Resolution for Labor and Environment

The Labor and Environment agreements also provide for dispute settlement in the event of a persistent pattern of failure to effectively enforce national laws. Where consultations fail to resolve such disputes, a neutral panel of independent experts will be established by a two-thirds vote of the parties. Ultimately, if a panel finds that there was such a persistent pattern, and if a party fails to remedy the matter, then there could be fines or trade sanctions in certain instances. Canada has agreed, in lieu of trade sanctions, to make assessments and other panel-ordered remedies enforceable against Canada in Canadian courts.

Asia Pacific Economic Cooperation (APEC)

Background: APEC from 1993-1997

The Asia Pacific Economic Cooperation (APEC) forum continued to make concrete progress in 1998 in pursuing its objectives of advancing economic cooperation and trade and investment liberalization and facilitation, and in progressing toward the long term goal "free and open trade and investment" in the region. APEC, which now consists of 21 economies on both sides of the Pacific, accounts for over half of world trade, and a growing proportion of world output.

APEC's development as the preeminent economic grouping in the Asia-Pacific region began in 1993, when President Clinton invited the 18 APEC Leaders to Blake Island, Washington for the first ever APEC Economic Leaders Meeting. This helped sharpen APEC's focus, as leaders committed to the development of APEC as a forum for producing tangible economic benefits for the region." In the 1994 "Bogor Declaration" in Indonesia, Leaders agreed to the goal of "free and open trade and investment" in the region by 2010 for industrialized economies, and 2020 for developing members. Further progress was made in 1995, with completion of the "Osaka Action Agenda," which established a plan for meeting the Bogor goal in 14 substantive trade and trade-related areas: tariffs, nontariff measures, services, investment, standards and conformance, customs procedures, intellectual property rights, competition policy, deregulation, government procurement, rules of origin, dispute mediation, mobility of business people, and implementation of Uruguay Round outcomes.

In 1996, two significant developments occurred at the APEC Leaders meeting in the Philippines. First, the 18 APEC members provided their first specific plans for implementing APEC objectives in the 14 substantive areas of the Osaka Action Agenda by completing the first version of their "Individual Action Plans (IAPs) containing voluntary commitments for fulfilling the Osaka goals. The IAPs are subject to annual revision and review. Second, APEC Leaders, strong endorsement of the Information Technology Agreement (ITA) in November 1996 acted as the catalyst for the subsequent completion of a global agreement in the WTO, one of the world's most commercially significant trade agreements.

APEC continued to make significant strides in 1997 in the trade and investment area. In particular, at their meeting in Vancouver in November 1997, APEC Leaders called for the reduction of tariff and other trade barriers in 15 key sectors, accounting for $1.5 trillion in global trade.

Progress in 1998

In 1998, APEC worked intensively to fulfill the Leaders' mandate to develop specific plans for liberalization in the 15 selected sectors, and in particular, in the 9 sectors that had been identified for early completion. APEC also moved forward in concrete ways to make progress on its broader agenda of advancing trade facilitation and liberalization in the region. Finally, at the APEC Leaders meeting in Kuala Lumpur, Malaysia in November 1998, three new member economies were admitted: Peru, Russia, and Vietnam.

(1) <u>Early Voluntary Sectoral Liberalization</u>

In November 1997, APEC Trade Ministers, acting on guidance received from APEC Leaders in 1996, recommended 15 sectors to APEC Leaders for a comprehensive program of early liberalization. APEC Leaders endorsed the Ministers' recommendation. Of the fifteen selected sectors, Ministers identified nine for early action in 1998:

- o Environmental goods & services
- o Chemicals
- o Energy sector
- o Medical Equipment
- o Forest Products
- o Fish & fish products
- o Toys
- o Gems & Jewelry
- o Telecom MRA

In these nine sectors, it was agreed that detailed proposals defining parameters such as scope of product coverage, phasing of liberalization, and measures covered (i.e., tariffs and/or other measures) would be completed by the APEC trade ministers meeting in June 1998, with a view toward beginning implementation in 1999 in the WTO, where appropriate. In addition, Ministers directed that work to develop proposals proceed in six additional sectors:

- o oilseeds
- o food sector
- o automotive sector
- o civil aircraft
- o fertilizer
- o natural & synthetic rubber

In these sectors, officials were directed to develop proposals further for review and assessment by Ministers at the June Trade Ministers meeting, for possible recommendation to Leaders in November 1998.

APEC Ministers fulfilled these goals in 1998. First, at the APEC Trade Ministers meeting in Kuching, Malaysia in June, Ministers reached agreement on the general parameters for liberalization in each of the first nine sectors, including a precise product scope, target end-dates and end rates for tariff cutting, and work programs for addressing nontariff measures and other issues. In addition, they endorsed the completion of the APEC Telecommunications Mutual Recognition Arrangement, which will facilitate trade in this key sector across the region by streamlining the conformity assessment procedures for a wide range of telecommunications and related equipment within the region.

In Kuching, Ministers also directed officials to undertake work on determining the degree to which flexibility should be allowed in implementing the sectoral liberalization schemes, noting that such flexibility should generally be in the form of extended staging, and that developing economies in principle should be allowed greater flexibility. This began a process whereby each APEC economy submitted requests for flexibility in implementation.

The work conducted in the second half of 1998 on the eight remaining "first tier" sectoral initiatives culminated in the Ministerial and Leaders meetings in Kuala Lumpur in November 1998. At the Kuala Lumpur, APEC Ministers took the following actions:

- They noted the work that had been completed on defining the tariff and nontariff elements of the sectoral initiatives in the eight sectors;

- They agreed that the tariff portion of this work should be introduced to the WTO immediately, and committed to endeavor to*conclude a tariff agreement in these sectors in 1999*.

- The 16 participating economies (all except Chile and Mexico) committed to work constructively in the WTO in 1999 to establish the critical mass necessary to conclude such agreements.

- The nontariff and other portions of the sectoral work programs in these sectors will be pursued in APEC in 1999;

- Ministers directed that work on the other six sectors be furthered for their review at the June 1999 APEC Ministerial in New Zealand. In addition, they directed that elements of the work programs in these sectors that had been agreed upon could be implemented in 1999. This decision allowed for the *establishment of the APEC Automotive Dialogue* in 1999, the first regional government-private sector forum dedicated to discussing automotive trade and investment policy issues.

Through this decision (which was approved by APEC Leaders), APEC Ministers effectively fulfilled their goal of using APEC support for liberalization in key sectors to catalyze global market opening, as they had done in 1996 by fostering completion of the Information Technology Agreement. In 1999, the United States intends to work with its APEC partners and other key economies to meet the goal of a global tariff agreement in the WTO in these sectors, and to advance work on the nontariff issues in APEC.

(2) Updating and Improving Individual Action Plans (IAPs)

First established in 1996, IAPs are a key tool for indicating how APEC economies are progressing toward the goal of "free and open trade and investment" in specific terms. APEC members are obligated to continuously update their IAPs. These revised IAPs demonstrate that APEC members continue to take measures to further open their economies.

To help ensure IAPs are an effective tool for advancing the goal of market opening and trade facilitation, APEC members continued with the process of "peer review" of IAPs in 1998. Korea and Malaysia subjected their IAPs to such review in 1998, and at the November APEC Ministerial meeting, Australia, Brunei, Japan, Philippines and the United States offered to undertake a peer review of their IAPs in 1999. Finally, in order to help ensure that IAPs were an effective and relevant tool of trade liberalization, Ministers directed APEC Senior Officials to undertake a review in 1999 to assess the overall progress in implementing IAPs.

(3) Trade and Investment Facilitation Measures

Another key element of the 1995 Osaka Action Agenda was the development of guidelines for "collective action plans" in each of the 14 substantive areas. A chief aim of these collective action plans in a number of the substantive areas is the development of cooperative approaches to facilitating trade and investment among APEC members. The work on these plans is conducted by a wide range of working groups in APEC and overseen by Committee on Trade and Investment. The full results of these efforts are reported in the *1998 Committee on Trade and Investment Annual Report to Ministers* (which can be found at the APEC Website). Highlights of the 1998 Report, which were noted by APEC Ministers at Kuala Lumpur in November, include the following steps:

- alignment of member economies' standards with international standards on electrical and electronic equipment in respect of safety and electromagnetic compatibility by

2004/2008;

- agreement on a comprehensive customs work program on common data elements, risk management and express consignment clearance;

- agreement on a menu of options for investment liberalization and facilitation;

- development of principles pertaining to value for money, open and effective competition, and fair dealing in government procurement;

- implementation of phase 2 of the APEC Business Travel Card trial and collective commitment to expand the availability of multiple entry visas or permits for business purposes;

- agreement on a set of policy recommendations on the development of natural gas and promotion of energy efficiency;

- launch of the APECNet for business search and opportunities; and a

- comprehensive range of training and technical cooperation programmes undertaken in 1998. These activities are aimed at improving the technical capacity, especially in developing APEC economies, to undertake trade liberalization and facilitation measures.

These measures are just a small sample of collective actions underway in APEC under the auspices of the CTI, the aim of which is to lower costs and facilitate the flow of goods and services within the Asia Pacific region. Further progress in such facilitation areas is planned for 1999, in accordance with the action plans contained in the CTI's 1998 Annual Report.